Tax Incremental Finance –
An Intergovernmental/Private Partnership

What Is TIF?

The Tax Incremental Finance Law (TIF) was approved by the Wisconsin Legislature as a financial tool municipalities could use to promote tax base expansion. Depending on the type of Tax Increment District (TID) the targets range from eliminating blight, rehabilitation and conservation, promoting industrial development or mixed-use, environmental remediation or specific projects that promote agricultural, forestry, manufacturing and tourism in towns as classified in the North American Industry Classification System, 1997 edition.

Before TIF, when a community installed public improvements to promote private development, its property owners bore these costs, but all taxing entities that shared the tax base benefitted. The legislature recognized this was an inequitable situation that sometimes discouraged development and redevelopment efforts. With TIF, all those who benefit directly or indirectly help pay development costs. <u>All taxing entities become partners to promote expansion of their tax base</u>.

TIF is a finance tool for tax base expansion. Benefits may also come in the form of increased employment, an improved business climate, and elimination of unsafe or unsightly areas.

Eligible "Municipalities"[1] and Types of TIDs

Eligible Municipality	WI Statute	Created After	Type of TID
City or Village	66.1105	1975	Blight, Rehabilitation or Conservation, Industrial
City or Village	66.1105	2004	Mixed-use
Town		2005	Any of the above as part of an annexation/cooperation agreement
City, Town, Village or County	66.1106	1997	Environmental Remediation
Town (TAF)	60.85	2004	Agricultural, Forestry, Manufacturing, or Tourism

[1] **Note:** The word "Municipality" is being used as a general term to mean city, village, or town.

How Does TIF Work?

When a Tax Incremental District (TID) is created, the municipality and other taxing entities agree to support their normal operations from the existing tax base within the district. A finding must be made that no development would happen without this financing tool. If this is true, tax rates will be the same with or without the TID. Property tax rates for the school, county, technical college, and municipality are based on the taxable value of the TID at the time it is created. These rates are then applied to the TID value increment which results in additional revenues collected for the district's fund. Eligible TID costs are paid from these revenues before the added tax base is shared.

In theory, the tax increment added to each levy does not increase taxes for property owners in the various taxing entities. It comes from taxes paid by owners of property, within the TID, whose property values have increased since creation of the district. This is possible because levies are apportioned without the TID value increases.

TIF is not a tax freeze nor a tax increase, but a special allocation method for taxes collected on property value increases within the district.

What Happens If TIF Revenues Fall Short?

Even the best laid plans can fall short of their goals. When this happens to a TID it results in a direct financial impact on the municipality. When projected revenues are lower than expected and expenditures are not met, a deficit occurs. If this deficit continues so that the TIF district cannot meet its obligations within its maximum life, what are the options for the municipality?

The municipality can continue with the TIF district in hopes that some potential development will change the projected deficit into a positive cash flow, or it can dissolve the district at which time the municipality shall become liable for all unpaid costs.

This is spelled out in the TIF Law in sec. 66.1105(7)(b) and 60.85(6)(e)a*, which says, in part:

> *The local legislative body, by resolution, dissolves the district at which time the municipality shall become liable for all unpaid project costs actually incurred which are not paid from the special fund.*

*Depending on the type of TID

Any municipality creating a TIF district must be willing to accept the possibility that it may not produce the desired results. When this happens, the taxpayers in that municipality will be responsible for assuming any unpaid project costs. For this reason, it is important to plan the district in a realistic way. Municipal officials, and overlying taxing jurisdiction officials should look at all available financing options and be familiar with the tax incremental law and its ramifications.

How Are Other Taxing Districts Affected?

Each tax district involved participates in the TIF partnership. Each shares a common hope that TIF expenditures will promote property tax base growth that **would not** otherwise have occurred. However, each tax district is affected to a different degree, depending on the value of TIDs within its boundaries compared to its total value. Joint Review Board members should each analyze how TIF affects them.

- **Municipal Representative**

  If a TID is effective and property values grow, the overlying tax districts will forgo the increase in property tax revenues until the municipality recoups its investment in the district. If the TID does not grow as planned, municipal taxpayers will ultimately pay some of the costs, themselves.

- **School District Representative**

  The school district(s) will not have the benefit, for local tax purposes, of any expanded property tax base in the TID until it is terminated.

  This can be justified if it is concluded the growth in property tax base **would not** have occurred during that period without the TID. Details for the school district can be obtained from the school district business manager.

- **Technical College Representative**

  Technical college districts, like school districts, forgo the benefits of any increased property tax base until the TID is terminated.

  If it can be concluded growth **would not** have occurred without the TID during that period, it is ultimately beneficial to the district's finances.

  However, if the growth would have happened without the TID, the technical college will have a higher tax rate than if the TID had not been created. Details for the technical college district can be obtained from the district business manager.

- **County Representative**

  Counties are affected in the same manner as schools and technical colleges. Benefit of any property tax base increase is foregone until the TID is terminated.

  If it can be concluded growth **would not** have occurred without the TID during the period, it is ultimately beneficial to county finances.

  On the other hand, if growth would have happened without the TID, the county will have a higher tax rate than if the district had not been created. Details for the county can be obtained from the county finance officer.

How Are Tax Increments Determined?

When a municipality creates a TID, it applies to the Department of Revenue for determination of property values within the district. This is the district's **Base Value**. As long as the TID exists, the Department determines its equalized value as of January 1 each year. This is called the **Current Value**. The difference between the base value and the current value is the **Value Increment**. The value increment is used to determine the amount of tax increment revenue that can be collected for that particular year.

Each taxing entity apportions its tax levy to the municipalities within its boundaries based on each one's share of its total equalized value. Only the base value of TIF districts is included in the apportionment process.

Some observers of the TIF law argue that since the base value of the TID may grow each year due to inflation, taxes on the "ordinary growth" in the base value should accrue to the respective taxing jurisdictions rather than to the TID's tax increment. However, the TIF law provides that all value increases become part of the increment.

The example on the following pages shows how the county levy is apportioned and how the tax increment to be added is calculated. <u>The same process is used to determine the tax increment added to each of the other levies, including that of the municipality that created the TID</u>.

Tax Incremental Calculation Example

The Tax Incremental Finance Law (TIF) was approved by the Wisconsin Legislature as a financial tool to promote tax base expansion.

Assumptions:

1. The entire county is composed of four municipalities, one of them has a TIF district.

2. The 2005 equalized values of property in the four municipalities are:

A	$400,000,000 *
B	70,000,000
C	20,000,000
D	10,000,000
Total	$500,000,000 *

*(includes $30,000,000 incremental value)

3. Municipality A has a tax incremental district (TID #1) with values of:

1995 Base Value . . .	$20,000,000
2005 Current Value . .	50,000,000
Value Increment.	30,000,000

4. The county needs $1,500,000 from property taxes for its budget.

NOTE: Values of the taxing entity and any municipality with one or more TIDs, are reduced by the value increment in any of the TIF districts.

Chart A

Each municipality's percent of the county's value is obtained with the formula:

% of the County's Value = Value of Municipality ÷ Value of County

Municipality	TID/OUT Value of Municipality		TID/OUT Value of County		% of the County's Value
A	$370,000,000	÷	$470,000,000	=	.787234
B	70,000,000	÷	470,000,000	=	.148936
C	20,000,000	÷	470,000,000	=	.042553
D	10,000,000	÷	470,000,000	=	.021277
				Total	**1.000000**

Chart B

The county tax apportioned to each municipality is obtained with the formula:

Apportioned Tax = % County Value x County Levy

Municipality	% County Value		County Levy		Apportioned Taxes
A	.787234	x	$1,500,000	=	$1,180,850
B	.148936	x	1,500,000	=	223,405
C	.042553	x	1,500,000	=	63,830
D	.021277	x	1,500,000	=	31,915
				Total	**$1,500,000**

Chart C

The formula for the county mill rate for each municipality is:

Municipality Mill Rate = Municipality Apportioned Tax ÷ (Municipality Equalized Value – Increment)

Municipality	Apportioned Municipality Taxes		Municipal's TID/OUT Equalized Value		County Mill Rate for Municipality
A	$1,180,850	÷	$370,000,000	=	.0031915
B	223,405	÷	70,000,000	=	.0031915
C	63,830	÷	20,000,000	=	.0031915
D	31,915	÷	10,000,000	=	.0031915

Chart D

The formula for the county tax to be collected by each municipality is:

County Tax Collected = Mill Rate x Total Equalized Value of All Municipal Property (includes the incremental value of TID #1 in Municipality A)

Municipality	Mill Rate		Total Equalized Value of Municipality		County Taxes Collected
A	.0031915	x	$400,000,000	=	$1,276,600
B	.0031915	x	70,000,000	=	223,405
C	.0031915	x	20,000,000	=	63,830
D	.0031915	x	10,000,000	=	31,915

Total County Taxes Collected	$ 1,595,750
Total County Levy	1,500,000
Tax Increment retained by Municipality A	$ 95,750

The county tax collected is apportioned to individual property owners in each municipality based on the assessed value of each parcel.

The amount of the tax apportioned by the county is $1,500,000. Chart B shows the amounts apportioned to each municipality.

The difference between the amount collected by the county by Municipality A, and the amount apportioned is $95,750. This is the "Tax Increment" retained by Municipality A and deposited into the TID #1 fund to be used for the district's project costs.

Chart E

Chart E below shows the effect on the county mill rate if the TIF district in Municipality A had been terminated in 2005, and the county's levy and values of each municipality remain the same.

County Levy	County Equalized Value	Mill Rate
$1,500,000	$500,000,000*	.0030000

* Includes TID value increase in TID #1, Municipality A

There is a difference in the tax rate of 19.15 cents per thousand dollars of equalized value without the TID in Municipality A, compared to the rate <u>with</u> the TID. This would mean a $19.15 tax difference on a property with a $100,000 market value.